BRIDGING THE GAP

A PLAN TO INCREASE FEDERAL TRANSPORTATION FUNDING WITHOUT INCREASING THE GAS TAX OR THE DEFICIT

James E. McGreevey
Governor of New Jersey

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A Plan to Increase Federal Transportation Funding Without Increasing the Gas Tax or the Deficit

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JAMES E. MCGREEVEY
Governor

Dear Colleague,

The reauthorization of TEA-21 presents a tremendous opportunity to increase investments in our nation's transportation networks. As Governor of the State of New Jersey, I recognize the growing need for transportation funding nationwide and its important role for both the health of our economy and the quality of life of our residents.

According to the U.S. Department of Transportation, the states will need more than $97.6 billion annually in order to maintain the nation's transportation network over the next six years. The states not only need significant program growth, but we also need a six-year program that provides a stable and predictable funding source. Extending the current program by either one or two years would damage our ability to invest in long-term projects at a cost to the transportation industry and our residents.

Much of the debate over reauthorization has been over the size of the program and the funding mechanism that can support it. Current funding mechanisms fall far short of meeting the needs confronting our states. Simply put, we must find another way.

This document presents my plan for a $300 billion, six-year reauthorization funded by traditional revenues, spending down the Highway Trust Fund and creating a Transportation Finance Corporation.

The plan achieves substantial and universal program growth over six years:

- Without adding to national debt,
- Without increasing federal motor fuels tax,
- Without bonding at the expense of public transportation, and
- Without adding costs to the states.

I look forward to working with you to build consensus for this proposal as Congress considers the reauthorization of TEA-21.

James E. McGreevey
Governor of New Jersey

A Proposal to Immediately Reauthorize TEA-21 Without Increasing the Gas Tax or the Deficit

The following outlines a proposal for the reauthorization of TEA-21 that will begin to adequately address the nation's growing transportation needs in a manner that is politically viable in the short term.

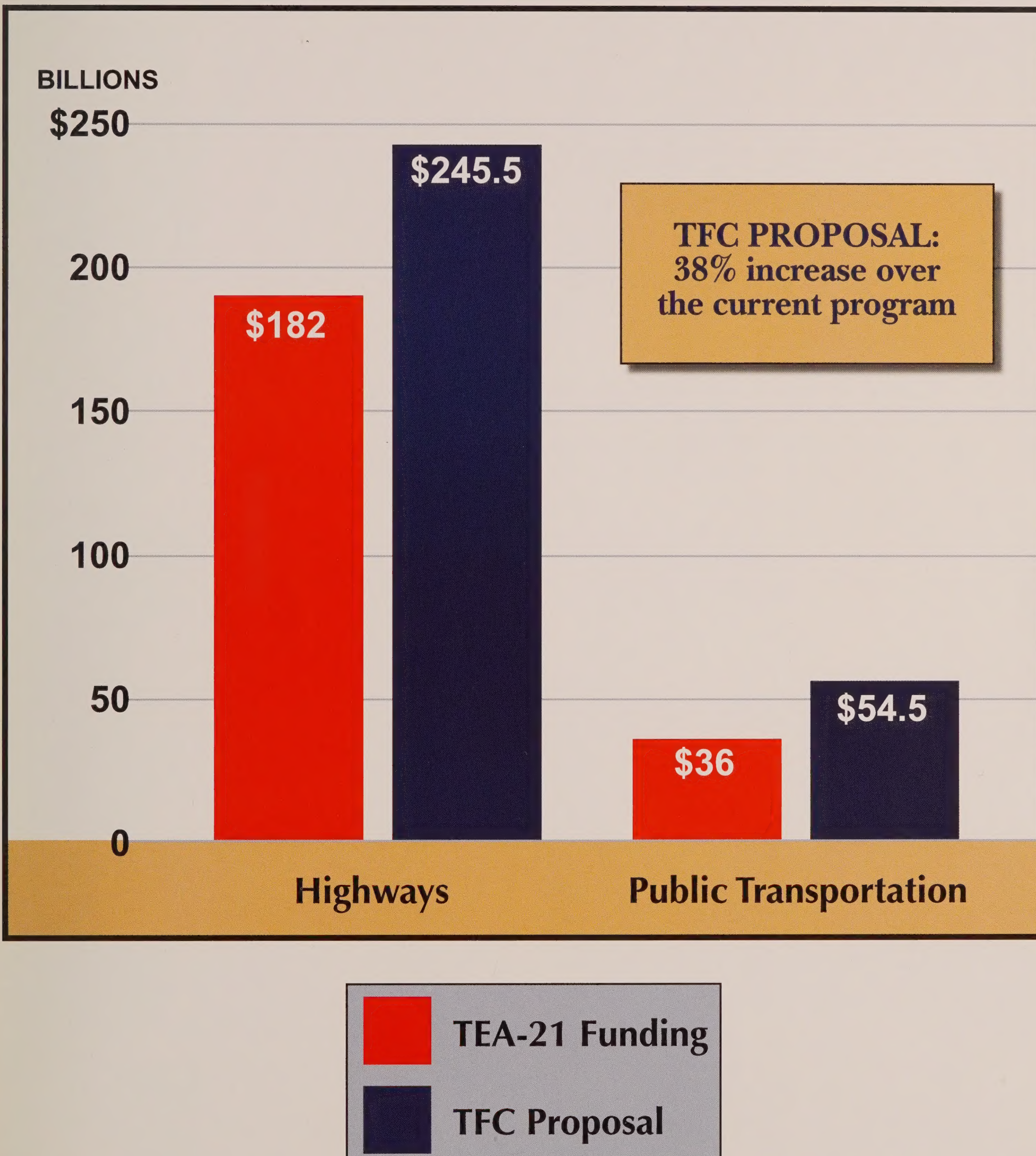
Highlights of the proposal

- Calls for a six-year program.
- Grows the program to approximately $300 billion of transportation funding over six years, $48 billion for highways and $12 billion for public transportation.
- Maintains the current highway and public transportation funding split.
- Provides an additional $60 billion in program funding over six years by creating a Transportation Finance Corporation (TFC) to sell tax credit bonds.
- Protects funding guarantees and budgetary firewalls.
- Continues and adjusts the Revenue Aligned Budget Authority (RABA).

Satisfies goals for reauthorization

- **Achieves** a $300 billion, six-year highway and public transportation program.
- **Avoids** a federal motor fuels tax increase.
- **Addresses** the concern for the growing national deficit by keeping the program revenue neutral.

Transportation Funding: TEA-21 vs. TFC Proposal

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THE CASE FOR A SIX-YEAR, $300 BILLION PROGRAM

The current user fees will support an approximately $248 billion program. However, this is insufficient to meet the needs of the states.

On the other hand, growing the program to $375 billion with an increase in the federal motor fuels tax does not seem feasible in the current political climate.

A program size of about $300 billion will begin to address the needs of the country and to provide a viable alternative to reauthorize a six-year bill in the short term.

Why is a six-year bill critical now?

- States need the ability to plan for long-term capital projects. Without the stability of a six-year bill, states may have to defer necessary long-term improvements indefinitely.

Why can't the current funding mechanism be used to grow the program?

- Dedicated funding from the motor fuels tax is the primary resource available to the Highway Trust Fund. Without a new funding mechanism, the maximum program size will be only $248 billion (highway and public transportation funding) over six years.

THE NATION'S TRANSPORTATION NEEDS CLEARLY OUTSTRIP RESOURCES.

- **$97.6 billion per year: Cost to the states to maintain the transportation system.**
- **By 2010:**
  - **– 25 million new cars added to our crowded highways.**
  - **– Public transportation ridership may reach 12.5 billion trips.**
  - **– 30 percent of our Gross Domestic Product will be freight dependent.**

THE TRANSPORTATION FINANCE CORPORATION (TFC)

The Transportation Finance Corporation (TFC) is an alternative way to add $60 billion to highway and public transportation programs without a federal motor fuels tax increase, without adding to the national deficit and without shifting the burden to the states.

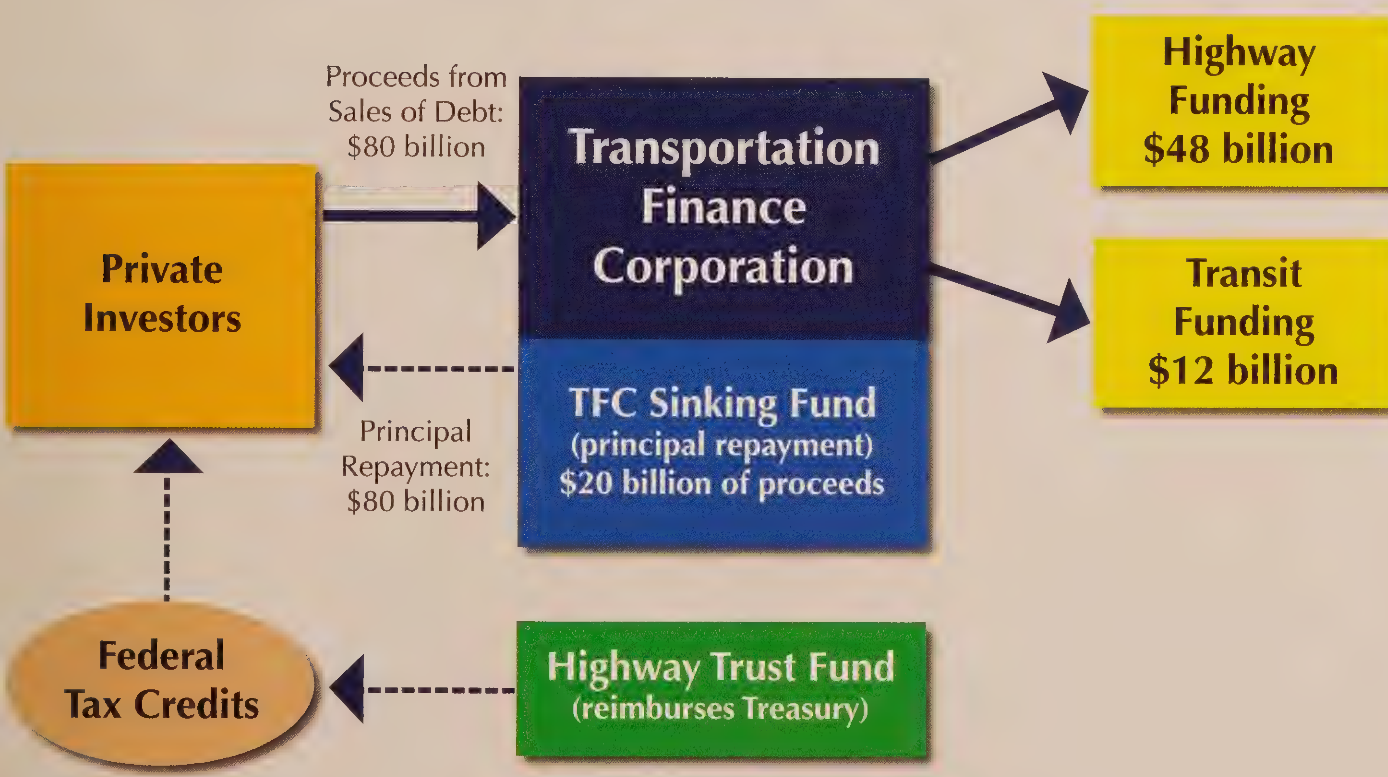
How does the TFC work?

- The TFC would be established as a nonprofit, non-governmental entity and empowered by the Congress to sell approximately $80 billion in tax credit bonds.
- $60 billion would be distributed to the states in a manner indistinguishable from the current structure.
- $20 billion would be deposited into a sinking fund for repayment of the principal.

How is the TFC different than other bonding proposals?

- The TFC issues tax credit bonds not Treasury bonds. It does not add to the national deficit. The Treasury would be compensated for this lost revenue with payments from the Highway Trust Fund.
- The TFC does not increase highway funding at the expense of public transportation. In fact, the TFC maintains the balance between them.

Supplementing Highway and Transit Funding: The Transportation Finance Corporation Proposal



Figures are approximate

Transportation Finance Corporation (TFC)
Frequently Asked Questions

What is the cost of the TFC to the U.S. Treasury?
Zero.

- The cost of the TFC is equal to the value of the federal tax credits.
- The Highway Trust Fund will reimburse the Treasury. Therefore, there is a net zero effect on the Treasury, i.e., the TFC does not increase the national deficit.

What is the cost of the TFC to the states?
Zero.

- $20 billion of the bond proceeds go into a "sinking fund" for principal repayment.
- The states are in no way liable for principal repayments or loss of tax credit revenue to the Treasury.

How does the TFC affect state transportation programs?

The only effect TFC has on the states is to increase funding.

- States will receive funds in a manner indistinguishable from federal-aid funds.
- TFC does not affect a state's ability to issue its own debt.
- The credit quality of the TFC bonds is not tied to a state or project credit ratings.

Does the TFC mean bonding forever?
No.

- The TFC self-finances a boost for the program for the next six years.
- The TFC bridges the current funding gap.
- However, current revenue streams will never cover the total need. The mechanism for transportation funding will clearly need to be addressed in years to come.

Will the TFC affect Congressional oversight?
No.

- The TFC is only a funding mechanism.
- All federal transportation funds will still be distributed to the states according to formulas determined by Congress.

Will the TFC be a financial success?
Yes.

- Seven of the nation's leading investment banks found that the TFC bonds would be readily marketable. Unofficial assessment by two ratings agencies suggest that the bonds would receive upper investment grade ratings.
- Many recommended that the TFC detach the principal from the stream of tax credits to further enhance the marketability of the bond.

IMPORTANT CONSIDERATIONS FOR REAUTHORIZATION

Efficient, safe and secure transportation is essential to moving people in both rural and urban areas and to the health of the national economy.

Investing in Public Transportation: Maintaining the Highway-Transit Funding Split

Building on the Successes of TEA-21

- Dramatic funding increases in TEA-21 spurred a 22 percent boost in ridership nationwide.
- Public transportation programs serve rural populations in 50 states and urban populations in 319 cities nationwide.
- Construction of new systems and the expansion of existing systems are required to accommodate the projected demand for 12 billion trips annually by 2010.

TFC and Public Transportation

- The TFC supplements the current funding mechanism. It does not replace funding for the public transportation account.
- TFC provides a universal boost of $60 billion, $12 billion for public transportation and $40 billion for highways.
- This proposal maintains the current highway-public transportation funding split.

Protecting Transportation Funding: Maintaining Budgetary Firewalls

- TEA-21 established a budgetary firewall between highway and public transportation programs and all other domestic discretionary programs.
- Taxes and fees that make up the Highway Trust Fund are user fees and, therefore, should rightly be applied to highway and public transportation only.

Protecting Transportation Funding: Fixing the Revenue Aligned Budget Authority (RABA)

- RABA is an important mechanism to ensure that all receipts from the Highway Trust Fund are distributed to the states.
- RABA calculations are very sensitive to changes in revenue estimates and can result in reduced levels of funding for states.

  Example: The downturn in the economy would have reduced funding levels if Congress had not acted to stabilize.
- Fixing RABA: This proposal will ensure a viable and predictable source of funding.

The Cost of Inaction

- **Cuts** critical transportation projects
- **Curtails** economic stimulus and job growth
- **Compromises** safety and security as a result of deteriorating infrastructure

The TFC Solution

- **Achieves** a $300 billion, six-year highway and public transportation program
- **Avoids** a federal motor fuels tax increase
- **Addresses** the concern for the growing national deficit by keeping the program revenue neutral


THE GREAT SEAL OF THE STATE OF NEW JERSEY

Reauthorization of TEA-21
Key Points

- Grow the program to $300 billion over six years
- Pass a six-year bill
- Maintain the current program for highway and public transportation funding
- Protect funding guarantees and budgetary firewalls
- Support the Transportation Finance Corporation proposal:
  - To generate $60 billion in additional funding
  - To achieve a $300 billion, six-year highway and public transportation program
  - To avoid a federal motor fuels tax increase
  - To address the concern for the growing national deficit by keeping the program revenue neutral

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